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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC 8899-82
3 November 1982

MEMORANDUM FOR: National Foreign Intelligence Board Principals

SUBJECT : Political Consequences of Economic Distress
in Eastern Europe

1. The economic difficulties facing most Eastern European countries, of which Poland is the most dramatic example, make it imperative that we fully assess the political implications which may follow. Accordingly, the Director of Central Intelligence has directed the production of a National Intelligence Estimate, tentatively titled "Economic Distress in Eastern Europe and its Political Consequences." Our intended completion date is First Quarter 1983.

2. In accordance with our standard procedures, please designate your agency's representatives as soon as possible. The NIE chairman is [redacted] National Intelligence Officer for USSR-EE, and the principal drafter will be [redacted] EUR-EE. A draft Terms of Reference is attached. We plan to discuss it at a meeting in Room 7D64, CIA Headquarters, at 1400 hours, Wednesday, 10 November. Please have your representatives call their names and pass appropriate clearances to [redacted] by COB 9 November 1982.

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Chairman

Attachment:
Terms of Reference

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Terms of Reference

Economic Distress in Eastern Europe
and the Political Consequences

The Nature of the Problem

The economies of the Soviet Bloc states of Eastern Europe have entered a period of severe stress. Growth has virtually ceased in most of these countries and GNP has declined in Poland: living standards have been adversely affected, hard-currency debts have reached alarming highs, Soviet and Western sources of aid have been drying up, and solutions to these and other difficulties are nowhere in sight.

This NIE will examine the character of the economic problem, the near-term prospects and the implications for both East-West and intra-Bloc relations. It will also assess the political and social consequences of economic travail in societies which, even in the best of times, are essentially unstable, and does so for the area as a whole and for each individual state--Poland, East Germany, Czechoslovakia, Hungary, Romania and Bulgaria. (Yugoslavia will be treated in a forthcoming estimate.)

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I. INTRODUCTION

- A. What are the principal sources of popular disaffection in Eastern Europe? Can they be said to be mainly economic (discontent with living standards, shortages, wages, prices, etc.) or political (lack of freedom, inability to participate in political life, regime oppression, lack of free trade unions, etc.)
- B. What are the fundamental economic problems and trends?
- C. What is the current state of stability at the top (i.e., within the regimes)? Are factionalism, demoralization, uncertainty heating up as the Soviet succession struggle begins and as economic conditions become worse?
- D. Is the general political and social scene in Eastern Europe changing--deteriorating?--as a consequence of economic travail?

II. THE CHARACTER OF THE ECONOMIC DECLINE

- A. Trends: What are the principal economic trends in GNP, productivity, foreign trade, indebtedness, and living standards? What is the nature of the current economic squeeze? The impact of Western recession, credit restrictions? Impact of Poland, lack of Soviet help--cuts in energy exports?
- B. Policies: Can we accurately describe official reactions to these trends? Are the regimes mainly trying to muddle through or do they have (or seriously

contemplate) coherent (if not necessarily effective) policies addressing their problems?

- C. The Soviet Role: What, essentially, has been the Soviet role in East European economic developments? Specifically: (1) to what degree has the USSR contributed to or alleviated East European economic problems? (2) what are the size and significance of Soviet aid programs and subsidies? (3) What are current Soviet attitudes and policies concerning current East European economic problems and policies (including those associated with reform), and what is their impact? And (4) are Moscow's policies likely to change in the near term (perhaps as a result of changes in the Soviet leadership)?

III. SHORT-TERM ECONOMIC PROSPECTS IN EASTERN EUROPE

(Building on the preceding sections, this summary look at likely trends over the next two to three years in East European economies and will estimate probable performance and emphasize problems of particular interest to East European consumers.)

- A. To what degree is East European economic performance likely to improve or to deteriorate over the next two to three years? (Differentiate, where necessary, between the various economies.)
- B. Are deep economic crises, as in Poland, likely anywhere

else?

- C. To what degree is the consumer likely to be (favorably or adversely) affected? What of possible cuts in investment? Military spending? And their implications?
- D. How will the East European regimes attempt to deal with their economic problems? Will they attempt to turn to the West? If so, what will they hope to get and what kinds of levels of increased trade and aid from the West would make a difference? What might the East Europeans be willing to do to facilitate closer economic ties to the West? If the East Europeans turn to the USSR, what will Moscow be able or willing to provide, and how much help will it be? What are the economic and political consequences of closer EE-Soviet economic relations?

IV. POPULAR ATTITUDES AND REACTIONS

(This will discuss the views of the various East European peoples concerning their own governments, the communist systems, and the USSR, thus to set the stage for an examination of the possible impact of economic troubles [as projected in the preceding section], on political stability.)

- A. How can we best describe the current popular mood; in Eastern Europe--passive, morose, restless, unsettled, explosive? Are the attitudes of the peoples concerned shifting as a result of economic decline? Specifically,

is the implicit social contract--roughly, more cooperation for more bread--threatened by the current malaise?

- B. Is the public's stake in stability (its concern for continued domestic peace) decreasing as a result of the bleak economic outlook or has the Polish experience affected public attitudes?
- C. What are the regime's and the USSR's probable reactions to growing (and potentially dangerous) popular dissatisfaction?

V. THE "CRISIS" TO COME

(This will draw from all of the above and estimate the likelihood of political and social crises).

- A. Will political and economic problems in Eastern Europe conjoin to create--within the leaderships, between the leaderships and the people--crises within these states and/or between the regimes and the USSR?
- B. If so, how, where, and when.
- C. In dealing with public unrest, how will the regimes react--with brutal repression, a willingness to compromise, capitulation, or what? What are the forms and effects on policies that would follow from struggles within the leaderships? How will the Soviets respond -(up to and including the option of military intervention)?

VI. COUNTRY SURVEYS

(In the process of reviewing the relevant circumstances in each of the six East European states of the Soviet Bloc, this section will pay particular attention to the nature of party/government efforts to deal with economic problems, and popular reactions thereto. Differences between the various countries [e.g., in public attitudes--resentful and surly in Romania, resigned(?) in Czechoslovakia] will be emphasized, and parallels with Poland (80-81) will be drawn, if appropriate. Estimates about short-term stability will conclude each survey.

- A. Poland: describe current status and prospects (as grim as they seem to be?).
- B. East Germany: discuss unique status (in re Germany); role as USSR's leading trading partner; past successes; present problems (especially fiscal) and prospects. Is the GDR success story coming to an end? The role of the Church, the peace movement, and the impact of the FRG.
- C. Czechoslovakia: do we color it all gray? or do current signs of the leaderships' realization that at least some economic changes are necessary indicate a little more color in the future?
- D. Hungary: assess the economic reform and Kadarism to date; will they serve as a model for the other East European countries? How do the Soviets view this

prospect--e.g., are the Soviets willing to let Hungary serve as a model? Discuss current stringencies and prospects.

- E. Romania: tension, austerity, autonomy; will the people remain (mostly) passive? Can Ceaurescu last? If he doesn't, what's likely to come in his wake?
- F. Bulgaria: Is "everything (still) coming up roses"? Is there a possibility of a disruptive post-Zhivkov succession struggle, aggravated by economic issues and problems? If so, what next?